

Message Text

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SUBJECT: ECONOMIC PROSPECTS FOR THE PHILIPPINES IN 1975

SUMMARY. PHILIPPINE SECRETARY OF FINANCE CESAR VIRATA HAS INFORMED PHILIPPINE BANKERS AND BUSINESSMEN AT CONFERENCE ON BUSINESS PROSPECTS FOR 1975 THAT PHILIPPINE ECONOMY WILL FARE BETTER THAN MANY OTHERS DURING PERIOD OF GLOBAL ECONOMIC SLOWDOWN. HE POINTED TO DIVERSITY OF PHILIPPINE EXPORTS AND STRENGTH OF DOMESTIC ECONOMY AS PRINCIPAL STABILIZING FORCES UNTIL ECONOMIES OF PRINCIPAL PHILIPPINE TRADING PARTNERS PICK UP. HE SAID THAT IN 1975 PHILIPPINE GOVERNMENT WOULD CONTINUE TO EMPHASIZE AGRICULTURE AND INFRASTRUCTURE CREATION BUT WOULD NOT PERMIT PRIVATE SECTOR CREDIT LEVELS TO RISE HIGHER THAN ECONOMY'S NEEDS WOULD JUSTIFY.

1. IN REMARKS TO CONFERENCE OF PHILIPPINE BANKERS AND BUSINESSMEN ON NOVEMBER 12 PHILIPPINE FINANCE SECRETARY CESAR VIRATA TOOK BULLISH POSTURE TOWARD PHILIPPINE ECONOMIC PROSPECTS FOR 1975. VIRATA SAID
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DIVERSITY OF PHILIPPINE EXPORTS AND RISING VOLUME OF

NON-TRADE INFLOWS WERE EXPECTED TO KEEP PHILIPPINE BALANCE OF PAYMENTS DEFICIT BELOW \$100 MILLION IN 1974. SLUMP IN EARNINGS FROM LOGS AND LUMBER AND COPPER WOULD BE LARGELY OFFSET, HE SAID, BY GROWTH IN SUGAR, COCONUT PRODUCTS AND TOURISM EARNINGS AND CAPITAL INFLOWS. VIRATA NOTED PHILIPPINES PETROLEUM IMPORTS IN 1974 WOULD TOTAL ONLY 67 MILLION BARRELS INSTEAD OF THE 72 MILLION BARRELS EARLIER PROJECTED. VIRATA SAID HE ANTICIPATED THAT THE PHILIPPINE BALANCE OF PAYMENTS WOULD IMPROVE IN 1975 AND CITED HIS EXPECTATION THAT THE U.S. HOUSING, INDUSTRY WOULD REVIVE AND STIMULATE PHILIPPINE TIMBER AND COPPER EXPORTS. VIRATA SAID PHILIPPINE DEBT SERVICE BURDEN WAS NOW ONLY 18 PERCENT AND THAT HE EXPECTED IT WOULD FALL TO AS LOW AS 15 PERCENT IN 1975.

2. THE QUESTION PERIOD BROUGHT FORTH SOME PROBING ABOUT PROSPECTS FOR FURTHER DEPRECIATION OF THE PHILIPPINE PESO A SUBJECT VIRATA HAD NOT MENTIONED IN HIS REMARKS. VIRATA SAID HE DID NOT BELIEVE THE PESO WAS OVERVALUED AT ITS CURRENT RATE OF 7.077-\$1.0 BUT ARTFULLY DEMURRED FROM ANY STATEMENT THAT THE RATE WAS DETERMINED BY THE MONETARY AUTHORITIES.

3. MAIN STRENGTH OF ECONOMY AS SEEN BY VIRATA WOULD BE DOMESTIC FACTORS. HE SAID FURTHER GROWTH IN AGRICULTURE WAS ANTICIPATED WITH THE CONTINUED FLOW OF CREDIT AND OTHER INPUTS TO THE SECTOR. HE NOTED THAT THE CENTRAL GOVERNMENT HAD ACCUMULATED CONSIDERABLE FUNDS (OVER 6.0 BILLION) DURING THE PAST 18 MONTHS WHICH COULD BE USED TO FINANCE INFRASTRUCTURE PROJECTS IN TRANSPORTATION, IRRIGATION AND OTHER AREAS WHICH SUPPORTED PRIVATE SECTOR PRODUCTION. TOURISM WAS CITED AS ANOTHER GROWTH AREA OF THE ECONOMY, AND IT WOULD RECEIVE ADDITIONAL INFRASTRUCTURE IN THE MONTHS BEFORE THE HOSTING OF THE BANK AND FUND MEETINGS IN 1976.

4. VIRATA ATTEMPTED TO ADD SOME PERSPECTIVE TO RECENT PHILIPPINE INFLATION. HE NOTED THAT PHILIPPINE PRICE LEVEL WAS GENERALLY LOWER THAN ITS NEIGHBORS WHEN GLOBAL INFLATIONARY FORCES WERE UNLEASHED AT THE END LIMITED OFFICIAL USE

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OF 1972. HE SAID THAT ANNUAL RATE OF PRICE INCREASE FELL TO 25 PERCENT IN SEPTEMBER FROM 45 PERCENT IN JULY AND THAT THE GOVERNMENT WAS SEEKING TO REDUCE THIS RATE TO 20 PERCENT BY YEAR'S END. VIRATA'S REFERENCE TO AN EXPECTED DROP IN THE 12 MONTH PRICE LEVEL COMPARISON BETWEEN SEPTEMBER AND DECEMBER WAS SLIGHTLY DISINGENUOUS IN ITS OBLIVIOUSNESS TO THE INCREASE IN PRICES BETWEEN SEPTEMBER AND DECEMBER

1973.

5. VIRATA SAID THAT ADEQUATE AMOUNTS OF CREDIT WOULD BE PROVIDED TO THE PRIVATE SECTOR, CITING THE FALL FROM OVER 20 PERCENT TO ABOUT 10 PERCENT IN THE PUBLIC SECTOR'S UTILIZATION OF TOTAL CREDIT AND THE RISE IN TOTAL CREDIT OVER THE PAST YEAR OF ABOUT 40 PERCENT. DESPITE VIRATA'S ASSURANCES HE GOT A NUMBER OF TOUGH QUESTIONS FROM BANKERS WHO COMPLAINED ABOUT THEIR INABILITY TO OBTAIN FUNDS TO FINANCE HIGHLY REGARDED PROJECTS AND THE CONTINUING PRESSURE ON INTEREST RATES IN THE INTERBANK MARKET. VIRATA TOLD HIS CRITICS THAT THE PRINCIPAL PROBLEM WAS ALLOCATION OF CREDIT AND THAT THE MONETARY AUTHORITIES WOULD CONTINUE TO HOLD TO THE POLICY OF DISCOURAGING USE OF CREDIT FOR SUCH NON-PRODUCTIVE PURPOSES AS COMMODITY AND LAND SPECULATION AND ENCOURAGING ITS USE IN AGRICULTURE, NOTING SPECIFICALLY THAT THE REQUIREMENT THAT 25 PERCENT OF COMMERCIAL BANKS' LOANS BE FOR AGRICULTURAL PURPOSES WOULD BE MAINTAINED.

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